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SUBJECT: GME: GETTING THE BALANCE RIGHT BETWEEN THE G-8 AND US-EU SUMMITS

Classified By: USEU Poloff Lee Litzenberger; Reasons 1.5 (b,d)

¶11. (C) Summary. According to an EU official working on the issue, the EU is becoming increasingly skeptical of the U.S.'s GME proposals for the G8 summit. Citing Commissioner Patten, the official said the G8 should stick to a political statement supporting regional reform; the U.S.-EU summit should focus on a plan of action. On the U.S. proposal to establish a facility to finance small and medium enterprises, he said, "The EU is already doing this -- and on a much larger scale than the U.S. proposes." Microfinancing, the official said, is a good idea but is labor intensive and unpopular with governments in the region, who claim it funds Islamic fundamentalism. The EU is concerned that U.S. proposals for the G8 will divert EU member state resources from the EU's Barcelona Process, just as the EU is negotiating its 2007-13 budget. EU officials are considering the U.S.'s ideas, but have been distracted by the need to prepare for the May 5-6 Euromed ministerial meeting in Dublin. End Summary.

EU uneasy over U.S. proposals for G8 summit

¶12. (C) On April 30, European Commission Director for the Barcelona Process, Patrick Laurent, provided visiting U.S. Treasury Department officials his views of the U.S. proposals for GME at the G8 Sea Island summit. He said the EU is considering the U.S. proposals, but is increasingly skeptical of them as they become more detailed and specific. Laurent acknowledged there is a consensus for a broad strategy to support reform in the region, but beyond that, views tend to diverge. He said there was no agreed definition of GME, and regional leaders don't like the term -- the Saudis, he said, resent being put in the same group as countries in the Maghreb. The U.S. seems to be moving the G8 to agree to specific financing instruments -- a mistake, in Laurent's view, that was taking the summit in the wrong direction.

G8 should issue statement; U.S./EU should do action plan

¶13. (C) Citing EC Commissioner Chris Patten, Laurent said the G8 summit should issue a political statement (which he said would send an important signal to the region); the U.S.-EU summit should follow-up with an action plan. Discussion of GME at the G8 summit began with an a la carte list of ideas. Now, however, the latest U.S. proposals are getting into implementation and programs. The G8, Laurent argued, is a macro-economic forum, not a place to discuss programs. Going that route will raise expectations, but won't result in getting the pledges needed to meet them. The U.S. ideas seemed to focus on creating financing "instruments". EU implementation of these proposals would be difficult, Laurent said. The U.S. proposals altogether amount to only \$100-150 million; the EU is already providing ten times that amount to the region. The EU doesn't need GME. The EU already has initiatives in place in the region -- its Euromed program (based on country specific action plans) and, more recently, its new European Neighborhood strategy.

Diversion of resources from EU programs?

¶14. (C) Laurent also expressed concern that the U.S. proposals, if implemented, would reduce EU member state ability to fund the EU's Euromed initiative. The EC was seeking a three-fold increase in Euromed funding (from 800m euros to 2.4 billion per year) for the 2007-2013 period. Laurent said he doubted the EC's ability to meet its target, but it is making a major push to increase funding to the region. If France, Italy, Germany and the UK commit to financing a G8 initiative in the region, Laurent is concerned that the funds will come out of the Euromed budget. EU members, he said, "should respect the primacy of existing EU instruments".

U.S. Proposals for SME's and Microfinancing

¶15. (C) Laurent said the U.S. proposal to create a facility to finance small and medium enterprises (SMEs) was a case in point. The EU was already doing this, and on a much larger scale than envisioned in the U.S. proposal. FEMIP, the European Investment Bank's Facility for

Euro-Mediterranean Investment and Partnership, directed more than a third of the 2.1 billion euros it loaned to the region in 2003 to support private business development. On the U.S. proposal to provide microfinancing, Laurent said this was a good idea in principle, but that it was very labor intensive and unpopular with governments in the region, who claim these programs can end up funding Islamic fundamentalists. For these reasons, the EU was moving away from micro-financing.

Let the U.S.-EU Summit Lay Out an Action Plan

¶6. (C) Laurent said it makes sense for the G8 to set broad priorities and objectives, but he argued that the U.S.-EU summit was best suited to working out the details of an action plan that would identify "things the U.S. and EU can do side by side" in the region to promote reform. He cautioned, however, that any initiative would need support and "ownership" in the region, and this would take time to build. For example, Laurent said that the EU has tried to set up a regional development bank in the Euromed region in the past, but failed due in part to member state objections. He speculated that if the U.S. were to announce its intention to fund a bank in the Gulf area, where the EU does not provide assistance, it could spur the EU to make another effort at establishing a bank for Mediterranean Arab countries. This was a hypothetical example of how the U.S. and the EU could work in tandem.

Comment

¶7. (C) Laurent's comments reflect his institutional bias for promoting the EU's substantial ongoing programs in the region, and his aversion to any initiative that might undercut the budget for these programs. They are likely to carry weight within the Commission as the EU considers the U.S. proposals for the G8 summit, but EU policymakers have been distracted by the need to prepare for the May 5-6 Euromed ministerial in Dublin and have not focused on responding to our ideas yet. To the extent our proposals are interpreted here as competing for funds (at least from France, Italy, Germany and the UK) for the EU's Euromed program, it will be viewed with skepticism in Brussels. On the positive side, it appears the EU is prepared to work with us to hammer out some kind of action plan for the U.S.-EU summit that will demonstrate our shared commitment to promote reform in the region. The challenge for us in the coming weeks will be finding the right balance between the two summits.

SCHNABEL